



Joint Legislative Audit Committee
Office of the Auditor General



FINANCIAL AUDIT REPORT
JUDGES' RETIREMENT FUND
YEAR ENDED JUNE 30, 1979

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-441.3**

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

441.3

FINANCIAL AUDIT REPORT
JUDGES' RETIREMENT FUND
YEAR ENDED JUNE 30, 1979

OCTOBER 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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S. FLOYD MORI
CHAIRMAN

November 21, 1980

441.3

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits
the Auditor General's financial audit report of the Judges'
Retirement Fund, year ended June 30, 1979.

The auditors are Curt Davis, CPA; Michael Dendorfer, CPA;
Gus Demas; Ed Pierini; and Geraldine Parks.

Respectfully submitted,

S. FLOYD MORI
Chairman, Joint Legislative
Audit Committee

Attachment

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INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Judges' Retirement Fund. This audit was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

The Judges' Retirement Fund was created by Chapter 771, Statutes of 1937 and operates under the Judges' Retirement Law contained in Sections 75000 through 75109 of the Government Code. The fund was administered by the State Controller through June 30, 1979. Currently, the Public Employees' Retirement System staff is responsible for administering this fund, in accordance with Section 75005 of the Government Code.

The Judges' Retirement Fund provides retirement benefits for municipal, superior, appellate, and supreme court judges and their survivors. Its receipts consist of contributions equal to 8 percent of the salaries from both judges and their state or county employers, filing fees from specific civil cases, income from the Surplus Money Investment Fund, Budget Act appropriations, and emergency fund allocations.

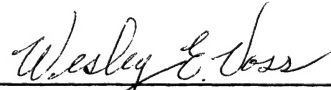
AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the statement of assets and fund balance of the Judges' Retirement Fund as of June 30, 1979, and the related statements of revenues, expenses, and changes in fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 3 thereto, the aforementioned financial statements have been prepared generally on the cash basis except for interest on investments which is accounted for on the modified accrual basis of accounting. Accordingly, the aforementioned financial statements do not present financial position, results of operations, or changes in financial position in accordance with generally accepted accounting principles.

In our opinion, the aforementioned financial statements present fairly the assets and fund balance of the Judges' Retirement Fund as of June 30, 1979, and its revenue, expenses, and changes in fund balance for the year then ended, on the basis described in Note 3 of the notes to the financial statements, which basis is consistent with that of the preceding year.



WESLEY E. VOSS
Assistant Auditor General

Date: August 18, 1980

Staff: Curt Davis, CPA
Michael C. Dendorfer, CPA
Gus Demas
Ed Pierini
Geraldine Parks

STATE OF CALIFORNIA
JUDGES' RETIREMENT FUND
STATEMENT OF ASSETS AND FUND BALANCE
JUNE 30, 1979

ASSETS

Cash in State Treasury	\$ 4,113
Investments (Note 4)	175,200
Accrued interest from investments (Note 5)	<u>46,540</u>
Total Assets	<u><u>\$225,853</u></u>

FUND BALANCE

Fund Balance	<u><u>\$225,853</u></u>
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The notes to the financial statements are an integral part of this statement.

STATE OF CALIFORNIA
JUDGES' RETIREMENT FUND

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND BALANCE

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Revenues:

Employer contributions	\$ 4,359,834
Member contributions	4,326,511
Special appropriation (Note 6)	4,117,146
County and municipal court clerk fees	3,037,316
Interest on investments	149,060
Member contributions for survivor benefits	36,520
Receipts for annuitants' health benefit plan	35,413
Miscellaneous	<u>5,520</u>

Total Revenues	<u>16,067,320</u>
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Expenses:

Retirement allowances paid	15,983,391
Member contributions refunded	108,449
Death benefits paid	22,994
Refund of health insurance premium	<u>35,413</u>

Total Expenses	<u>16,150,247</u>
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Excess of Expenses over Revenues	(82,927)
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Fund Balance - July 1	<u>308,780</u>
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Fund Balance - June 30	<u><u>\$ 225,853</u></u>
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The notes to the financial statements are an integral part of this statement.

STATE OF CALIFORNIA
JUDGES' RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1979

1. DESCRIPTION AND FINANCING OF RETIREMENT SYSTEM

The Judges' Retirement Fund is a defined benefit retirement plan based upon members' years of service and ages at retirement. Coverage under the system is automatic and effective when a municipal, superior, appellate, or supreme court justice assumes office. After five years of credited service, members become fully vested in retirement benefits which they receive when they have reached a certain age and have served a specified number of years. Judges who began serving before January 1, 1974 may receive certain deferred retirement benefits when they have reached age 65 without satisfying the minimum years of credit. These benefits are also provided for disabled members and for survivors of eligible members.

The membership of the Judges' Retirement System included 1,123 judges and former judges at June 30, 1979. Retired judges and survivors receiving benefits at June 30, 1979 totaled 617.

Retirement benefits are based upon a percentage of the current compensation payable to the judges holding the office which the retired judge last held. Benefits payable by the fund are financed through the contributions of members and their state or county employees, specified filing fees, and interest earned on investments of the fund. Since annual normal contributions and earnings are insufficient to provide the retirement benefits and refunds of members' contributions, the General Fund augments the fund. Section 75110 of the Government Code requires that the system be fully funded by January 1, 2002.

Members' contributions are refundable should members leave the retirement system. If members withdraw their accumulated contributions, they forfeit the related vested benefits.

2. SUMMARY OF ACTUARIAL VALUATION

Section 75109.5 of the Government Code requires actuarial valuations to be performed at intervals not to exceed four years. The latest actuarial valuation was performed as of June 30, 1977 and was based on the State Controller's records of retirement system members now active or retired.

Actuarial Assumptions

The valuation was calculated using the entry age normal cost method to fully fund the system by the year 2002. This valuation assumes that normal cost payments will be paid through each judge's working lifetime so in order that all benefits will, on the average, be funded at the point of retirement.

Other significant assumptions used in the June 30, 1977 actuarial valuation are listed below:

Asset Valuation Method - Assets were valued at the amounts reported by the State Controller without modifications.

Investment Yield - The assets of the Judges' Retirement Fund represent cash and the investment of excess monies in the Surplus Money Investment Fund. (The actuary has recommended establishing a system based on long-term investments (prime bonds) and has estimated an 8 percent yield for this type of investment. No action has been taken in response to the actuary's recommendation.)

Wage Inflation Rate - The actuary has assumed that future salaries and cost-of-living benefits will increase at an annual rate of 6 percent.

Mortality - The 1971 Group Annuity Mortality Table was used.

Wage Progression and Promotion - The actuary has assumed that wage progression will increase at an annual rate of 0.25 percent.

Unfunded Actuarial Liability

In conducting the actuarial valuation, the actuary determined the unfunded actuarial liability as of June 30, 1977 was \$393,500,000. Based upon the amount of unfunded actuarial

liability, the actuary calculated the contribution rate necessary to fully fund the system by January 1, 2002. Both the minimum rate and the recommended rate are presented below:

	<u>Percentage of Payroll</u>
Judges' contributions	8.0%
Statutory contribution	8.0
Filing fees and county contribution	6.0
Augmentation from the General Fund	<u>5.8</u>
Total	27.8
Additional rate required to limit the growth of the accrued actuarial liability	<u>29.8</u>
Minimum Rate Recommended	57.6
Additional rate recommended to amortize the accrued actuarial liability by January 1, 2002	<u>26.8</u>
Recommended Rate	<u><u>84.4%</u></u>

During fiscal year 1978-79, the actual rate of contribution was only 29 percent of the payroll--substantially less than both the minimum recommended rate (57.6 percent) or the recommended rate (84.4 percent).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statements of the Judges' Retirement Fund have been prepared generally on the cash basis. These are some of the significant elements of the fund's accounting policies:

Revenues

Throughout the fiscal year, revenues are accounted for on a cash basis; that is, revenues are recognized when received rather than when earned. An exception to this policy applies to interest on investments. Throughout the fiscal year, interest is accounted for on the cash basis and adjusted at the end of the year to reflect the modified accrual basis of accounting.

Expenses

Expenses are recognized at the time claims for payment are filed with the State Controller rather than when the obligation is incurred. Accordingly, no liabilities of the fund are reflected in its financial statements.

4. INVESTMENTS

Investments represent the amount of excess cash which has been transferred to the Surplus Money Investment Fund for investment by the State Treasurer. These deposits may be returned to the fund from which they were transferred, if necessary.

5. ACCRUED INTEREST FROM INVESTMENTS

Interest is derived from investments in the Surplus Money Investment Fund. Accrued interest from investments represents interest earned but uncollected at June 30.

6. SPECIAL APPROPRIATION

This account represents the amount transferred by the State Controller to the Judges' Retirement Fund for municipal, superior, appellate, and supreme court judges as provided for in the legislative Budget Act of 1978. This appropriation is required because annual normal contributions and earnings are insufficient to provide the retirement benefits and refunds of members' contributions.

7. CONTINGENCIES

Prior Service Benefits

Some judges have the right to purchase retirement benefits for various types of previous service. The value of the additional benefit is considerably greater than the contribution required from the judge. The potential cost to the fund is unknown until prior service benefits have been purchased. (This contingency was not included in the actuarial valuation or in the fund's financial statements.)

Litigation

As of June 30, 1979, both a Supreme Court decision and a case pending resolution could affect the Judges' Retirement Fund. In one case, the Supreme Court held that, contrary to certain legislation, retired judges were entitled to have increases in their retirement allowances. These increases are to be computed based upon the salary of the current occupant of the particular court from which they retired. In the other case, a widow has challenged a provision in the retirement law which terminates a widow's benefits upon remarriage. (Provisions for these contingencies are not included in the fund's financial statements.)

cc: Members of the Legislature
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Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
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